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CREDIT OPINION
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San Francisco Municipal Transportation Agency, CA

Update to credit analysis following outlook change to negative from stable

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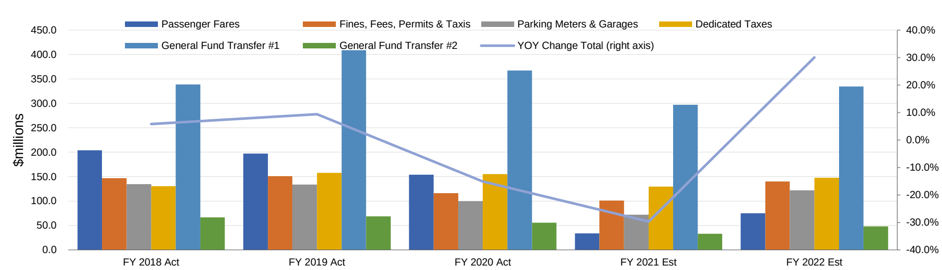
Summary

The credit quality of the San Francisco Municipal Transportation Agency (SFMTA, Aa2 negative) benefits from the diverse mix of revenues pledged to its revenue bonds, including dedicated taxes, transit fares, parking revenues and fines; the essentiality and high utilization of SFMTA's transit services; a long trend of voter approval for dedicated revenues to support SFMTA's transit and other transportation operations; and the availability in the near term of substantial federal support to offset revenue losses due to the COVID-19 pandemic. Other strengths include relatively low debt levels and the absence of significant additional borrowing plans given the availability of external funding for the SFMTA's sizable capital plan, its authority to set transit fares and parking-related fees and fines, and proactive action by management to cut spending to balance the budget. These strengths are offset by high fixed costs for pensions and OPEB, and financial pressures on the City and County of San Francisco's (Aaa negative) general finances.

On January 22, we affirmed the Aa2 rating on SFMTA's revenue bonds and changed the outlook to negative from stable. The decline in ridership and other major revenues as a result of the COVID-19 pandemic was a key driver of the change in outlook. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Exhibit 1
Farebox and other key operating revenues fell significantly in FY 2020 and 2021 as a result of the pandemic



Dedicated taxes include AB 1107 sales taxes and state STA/TDA funds; general fund transfers are not pledged to the bonds.
Sources: SFMTA annual financial reports, annual financial disclosures, and offering documents.

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Credit strengths

- Availability, in the near term, of federal relief funds to offset revenue losses.
- Large service area with high transit utilization and essentiality, combined demonstrated voter support for transit.
- Very low debt levels with strong coverage by both pledged revenues and net revenues.
- Diverse revenue stream including dedicated taxes, fares, parking revenue, and fines; rate-setting autonomy for transit fares, parking fees, and fines.
- A long-term trend of sound financial management.

Credit challenges

- A significant decline in ridership and non-farebox operating revenues as a result of the pandemic, and uncertainty about the timing and pace of recovery.
- Financial pressures on the City and County of San Francisco's general finances.
- Relatively high fixed costs attributable to pensions and OPEB.

Rating outlook

The change in outlook to negative reflects the magnitude of the transit ridership and revenue losses experienced by SFMTA as a result of the pandemic, uncertainty about the timing and pace of a recovery in ridership and revenues, and the likely need for further spending cuts or new revenues to balance operations in fiscal 2022 and beyond.

Factors that could lead to an upgrade

- The addition of significant new sources of revenues to the existing pledged revenue mix, combined with limited issuance of new debt.

Factors that could lead to a downgrade

- Failure of the city and regional economies to recover from the current pandemic-driven economic downturn leading to a downgrade of the rating of the City and County of San Francisco's rating.
- A change in commuting patterns driving a long-term reduction in ridership.
- Inability to restore operating balance with spending cuts or new revenues.

Key indicators

Exhibit 2

Fiscal Year	2015	2016	2017	2018	2019	2020
Annual Ridership (000)	219,326	232,349	225,786	224,611	222,938	170,284
Annual Ridership Growth	-3.8%	5.9%	-2.8%	-0.5%	-0.7%	-23.6%
Utilization (Trips/Population)	254	266	256	253	250	190
Farebox Recovery Ratio	24.1%	25.8%	18.4%	21.8%	21.2%	15.0%
3-Year Average Fixed Costs as a % of Operating Expenditures	12.3%	12.8%	12.2%	12.0%	12.3%	13.5%
Net Debt/Revenues	0.2	0.2	0.3	0.3	0.3	0.3
3-Year Average Annual Debt Service Coverage by Net Revenues (GAAP) (x)	13.9	9.6	6.2	6.1	4.7	6.1
Days Cash on Hand	364	310	269	212	232	219
Additional Measures						
Pledged Revenues ($000)	626,312	621,302	616,089	652,919	689,996	764,755
Annual Change in Pledged Revenues	-2.5%	-0.8%	-0.8%	6.0%	5.7%	10.8%
Annual Debt Service Coverage by Pledged Revenues (Indenture) (x)	38.5	36.5	37.0	24.8	27.2	30.1

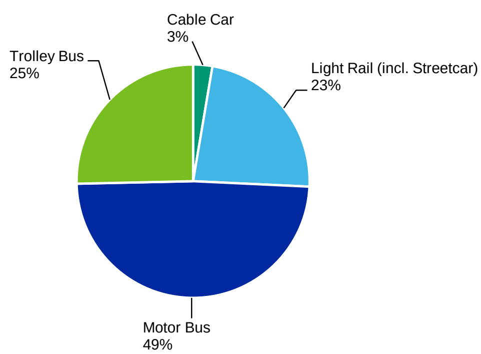
Pledged revenues for fiscal 2020 include $199.6 million federal coronavirus relief funds.
Sources: SFMTA annual financial reports, annual financial disclosures, and offering documents; California Department of Finance population estimates.

Profile

The SFMTA, an enterprise department of the City and County of San Francisco, is a multi-modal transportation agency responsible for planning, designing, constructing, managing, operating and maintaining public transit, paratransit, street and traffic management and improvements, bicycle and pedestrian safety and enhancement programs, on and off-street parking, and the regulation of taxis and commercial vehicles.

SFMTA's pre-pandemic fixed route transit network consisted of 50 motor coach lines, 14 electric trolley bus lines, seven light rail lines, three cable car lines, and two historic streetcar lines. Calendar year 2019 ridership totaled 215 million, with bus service (motor and trolley bus) accounting for about three-quarters of total ridership.

Exhibit 3
Bus service makes up about three-quarters of SFMTA ridership
CY 2019 ridership by mode



Source: American Public Transit Association.

The SFMTA's parking operations include approximately 28,000 on-street metered parking spaces and 15,000 off-street parking spaces in 21 garages and 18 surface lots. The garage and surface lots represent approximately 30% of downtown and 15% of citywide parking spaces.

Detailed credit considerations

Size and Market Position

Based on total ridership in calendar 2019, SFMTA is the eighth largest transit system in the country and the largest in the Bay Area. The 215 million passengers carried by SFMTA that year represented close to 45% of all transit passengers in the region. System utilization, measured by ridership over population, is among the highest in the nation.

Exhibit 4

SFMTA is the 8th largest transit operator in the US...

Largest US operators, CY 2019 ridership (000s)

Operator	Ridership
New York MTA	3,815,016.1
Chicago Transit Authority	455,743.5
Los Angeles County MTA	371,280.8
Massachusetts Bay Tr Auth	351,742.5
Washington Metropolitan Area Transit Authority	343,170.9
Southeastern Pennsylvania Transit Authority (SEPTA)	293,715.2
New Jersey Transit Corp	263,300.2
San Francisco Municipal Transportation Agency	214,570.7
King County Deptartment of Transportation (Seattle)	127,585.1
San Francisco Bay Area Rapid Transit District (BART)	126,648.7
Metro Atlanta Rapid Transit Authority (MARTA)	115,117.7
Colorado Regional Transportation District	105,569.2
Tri-County Metropolitan Transportation District (Tri-Met)	97,069.9
Maryland Transit Administration	93,429.8

Source: American Public Transit Association.

Exhibit 5

... and the largest in the Bay Area

Largest Bay Area operators, CY 2019 ridership (000s)

Operator	Ridership
San Francisco Municipal Transportation Agency	214,570.7
San Francisco Bay Area Rapid Transit District (BART)	126,648.7
Alameda-Contra Costa Transit District	54,618.9
Santa Clara Valley Transportation Authority	36,155.1
Peninsula Corridor Joint Powers Board (CalTrain)	18,693.5
San Mateo County Transit District	11,142.7
Golden Gate Bridge, Hwy & Transportation District	5,645.6
Central Contra Costa Transit Authority	3,612.9
Water Emergency Transportation Authority	3,218.6
Eastern Contra Costa Transit Authority	1,878.0
Livermore/Amador Valley Transit Authority	1,809.0
San Joaquin Regional Rail Commission (ACE Train)	1,492.4
Napa Valley Transportation Authority	992.3
Sonoma-Marin Area Rail Transit District (SMART)	714.0

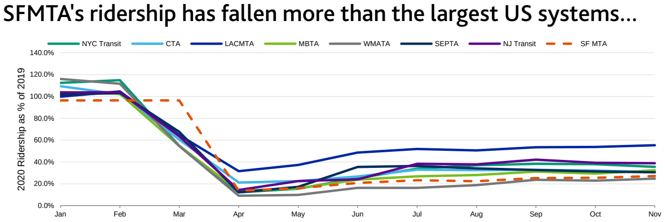
Source: American Public Transit Association.

Like all transit systems nationwide, SFMTA has experienced a severe drop off in ridership as a result of the coronavirus pandemic. At the low point in April, SFMTA's monthly ridership had fallen to 13.6% of the April 2019 level. Transit use has improved moderately since April, but remains low--in November, ridership was 27.1% of 2019.

SFMTA's ridership loss was greater than that experienced by the other large US transit systems. Of the eight largest systems in the US, only the Washington Metropolitan Area Transit Authority saw a bigger loss. In the Bay Area, SFMTA experienced a greater loss in ridership than AC Transit (Alameda-Contra Costra Transit District, COPs A1 stable), SamTrans (San Mateo County Transportation Authority), and VTA (Santa Clara Valley Transportation Authority, sales tax bonds Aa2 stable), but its ridership loss was less than that experienced by BART (San Francisco Bay Area Rapid Transit District, general obligation bonds Aaa stable) and CalTrain (Peninsula Corridor Joint Powers Board, revenue bonds A2 positive).

Exhibit 6

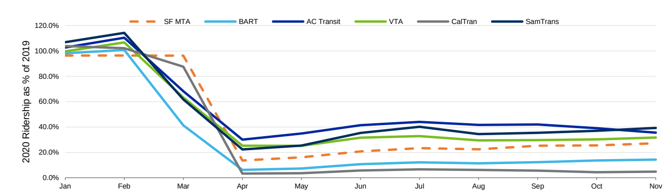
SFMTA's ridership has fallen more than the largest US systems...



NYC ridership is NYC Transit only; excludes LIRR and MetroNorth commuter rail, and suburban bus.
Source: Federal Transit Administration.

Exhibit 7

... and more than some other Bay Area systems



Source: Federal Transit Administration.

In response to the decline in ridership and safety concerns, in the early days of the pandemic, SFMTA suspended service on the light rail system, cable cars and historic streetcars, and reduced and realigned bus services. A phased reopening of the light rail system began in December with two lines restored to service as of January 25. Additional rail lines and bus service will be added as demand increases.

SFMTA management currently projects annual ridership for fiscal 2021 of 63.3 million, a decline of 72% from fiscal 2019. Management expects some recovery in transit use in fiscal 2022, but projected ridership of 134.3 million would still be 40% below fiscal 2019.

Financial Flexibility and Metrics

SFMTA's finances benefit from a diverse mix of operating revenues including transit fares, parking meter fees, off-street parking revenues, fines, dedicated tax revenues, and general fund transfers. SFMTA has autonomy to set its fares, parking fees, and fines. Dedicated taxes include: AB 1107, the ½-cent BART sales tax, a portion of which is allocated by formula to SFMTA; State Transit Assistance (STA), a state sales taxes on diesel fuels allocated to counties for transit; and state Transportation Development Act (TDA) funding, a state ¼-cent sales tax returned to counties for transit. The general fund transfers are formula-driven, voter approved and embedded in the City Charter. They do not require appropriation by the city and cannot be diverted to other city purposes. Most of SFMTA's operating revenues, with the primary exception of the general fund transfers, are pledged to the revenue bonds.

Farebox revenues have declined significantly as a result of the dropoff in transit ridership. Farebox revenue fell $43 million or 21.8% from fiscal 2019 to fiscal 2020. Management estimates that fiscal 2021 farebox revenues will be 82.7% below the fiscal 2019 level.

Other dedicated revenues have also declined significantly as a result of the pandemic-driven shutdowns and the resulting economic contraction, although the extent of the declines are less than the drop in farebox revenues. Revenue streams that are tied to parking activity--including parking revenues, fines and General Fund Transfer No. 2--have seen the largest declines after farebox revenues. Dedicated tax revenues and General Fund Transfer No. 1 have experienced smaller declines. Overall, excluding federal pandemic relief funds, pledged revenue fell by $125 million or 18.1% from fiscal 2019 to fiscal 2020 and are expected to be 45.6% below the fiscal 2019 level in fiscal 2021. General Fund Transfers 1 and 2, combined, fell by $55 million or 11.4% from fiscal 2019 to fiscal 2020 and are expected to be 30.8% below the fiscal 2019 level in fiscal 2021.

Exhibit 8

SFMTA benefits from a diverse mix of dedicated revenues, but all have fallen significantly as a result of the pandemic

Operating revenues ($000s)

	2018 Act	2019 Act	2020 Act	2021 Est	2022 Est	Ch 19-20	Ch 19-21	Ch 19-22
Pledged Revenues								
Passenger Fares (fixed route & paratransit)	203,787	197,110	154,100	34,035	75,239	-21.8%	-82.7%	-61.8%
Fines, Fees, Permits & Taxis	146,843	151,066	116,028	100,931	140,012	-23.2%	-33.2%	-7.3%
Parking Meters	63,813	61,264	43,913	36,530	65,798	-28.3%	-40.4%	7.4%
Parking Garages	70,748	72,412	56,049	35,439	56,157	-22.6%	-51.1%	-22.4%
Other (includes rent, advertising & interest)	37,148	50,478	39,889	31,495	39,017	-21.0%	-37.6%	-22.7%
AB 1107 (BART Sales Tax)	43,009	46,776	44,486	42,099	46,046	-4.9%	-10.0%	-1.6%
State Transit Assistance (STA)	42,631	64,727	61,228	46,271	54,069	-5.4%	-28.5%	-16.5%
Transportation Development (TDA)	44,940	46,163	49,434	41,063	47,362	7.1%	-11.0%	2.6%
Traffic Congestion Mitigation Tax				7,384	8,881			
Total before Federal Pandemic Support	652,919	689,996	565,127	375,247	532,581	-18.1%	-45.6%	-22.8%
Federal Pandemic Support (CARES Act)			199,629	176,583				
Federal Pandemic Support (Dec 2020)				145,086	84,914			
Total including Federal Pandemic Support	652,919	689,996	764,756	696,916	617,495	10.8%	1.0%	-10.5%
Non-Pledged Revenues								
General Fund Transfer No. 1	338,850	408,734	367,478	297,229	334,512	-10.1%	-27.3%	-18.2%
General Fund Transfer No. 2	66,790	68,820	55,570	33,180	48,000	-19.3%	-51.8%	-30.3%
City Population-Based Baseline				30,000	30,000			
Transit Development Fees				26,072	45,093			
Other Non-Pledged	22,290	24,218	22,246	27,264	36,444			
Grand Total Operating Revenues	1,080,849	1,191,768	1,210,050	1,110,661	1,111,544	1.5%	-6.8%	-6.7%

Revenues exclude the use of fund balance; prior to fiscal 2021, City Population-Based Baseline and Transit Development Fees were earmarked for capital.
Sources: SFMTA annual financial reports, annual financial disclosures, and offering documents

In response to the revenue shortfalls, SFMTA enacted expenditure cuts totaling approximately $37 million in fiscal 2020 and $118 million in fiscal 2021, including hiring freezes and overtime controls. It also redirected to operating accounts revenues previously earmarked for capital, including the “City Population-Based Baseline,” a third general fund transfer provided for in the City Charter, and certain transit development fees. Management also hopes to generate debt service saving in fiscal 2021 and 2022 with a revenue bond refunding currently in progress. But the fiscal 2020 and 2021 budgets were balanced primarily with federal pandemic support funds. SFMTA received $374 million in relief funds from the CARES Act, of which it allocated $197 million to fiscal 2020 and $177 million to fiscal 2021. It estimates that it will receive $230 million additional funding from the recently-approved federal relief package, of which it plans to allocate $145 million to fiscal 2021 and $85 million to fiscal 2022.

Despite the projected partial recovery of ridership and operating revenues in fiscal 2022 and expected availability of $85 million in federal relief funds, SFMTA still anticipates an operating deficit of approximately $60 million for that year. Absent additional federal support and/or a greater-than-anticipated recovery of revenues, SFMTA will likely need to enact additional spending cuts, possibly including employee layoffs.

Liquidity

SFMTA's liquidity is strong. As of December 10, available liquidity totaled $960 million, primarily held by the San Francisco City Treasurer. SFMTA also has the ability to borrow from the city's investment pool if needed.

Debt and Legal Covenants

Legal security

The SFMTA's revenue bonds are secured by a gross pledge on diverse mix of operating and non-operating revenues including transit fares, parking revenues, parking and traffic fines, and dedicated taxes, but excluding transfers from the city's General Fund and certain other restricted revenues.

Debt structure

SFMTA's direct debt levels are relatively low due to the availability of external funding for its sizable capital needs, including federal grants, state and regional grants, Proposition K sales tax funds from the San Francisco County Transportation Authority, and voter-approved San Francisco general obligation bonds. Following the planned issuance of its Series 2021A, B & C revenue bonds, SFMTA will have approximately $577 million revenue bonds outstanding. Pledged revenues for fiscal 2021, including federal relief funds, provide 30.7 times coverage of maximum annual debt service on the revenue bonds. Excluding federal relief funds, pledged revenue provide 16.5 times coverage of MADS.

Debt-related derivatives

SFMTA has no debt-related derivatives.

Pensions and OPEB

Healthcare, pensions and other post-employment benefits for SFMTA employees are provided through the city's plans. Although the city's pension plan is relatively well-funded and the city has enacted some reforms, pension and OPEB costs contribute to relatively high fixed costs. For fiscal 2016 total fixed costs, including the required pension contributions, OPEB contributions and debt service, equaled 13.6% of operating expenses excluding depreciation.

ESG considerations

Environmental

According to Moody's affiliate Four Twenty Seven, San Francisco has high environmental exposure to water stress and sea level rise. Water stress will likely require the city to intensify its investments in water conservation, but this stress should not have a direct effect on SFMTA. Sea level rise poses risk to some of SFMTA's capital assets, particularly its subway in downtown San Francisco. This risk is mitigated to some extent by voter approval of a $500 million general obligation bond to make improvements to the seawall over the next few years. Notably, SFMTA's transit system is a key element of the city's air quality and climate change programs and SFMTA is likely to benefit from state and local initiatives to reduce vehicle emissions.

Social

The city has a high level of homelessness and extremely high housing costs, which are social risks, both of which could have negative impact on the city's economic growth. Homelessness also causes operational challenges for SFMTA's bus and light rail system.

The continuing impact of the coronavirus outbreak and protracted economic recovery is creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework.

Governance

The SFMTA was established in 2002 through consolidation, by a city charter amendment, of the San Francisco Municipal Railway (Muni), and the Department of Parking and Traffic. The agency is an enterprise department of San Francisco governed by a seven-member board of directors, appointed by the San Francisco mayor and confirmed by the city's Board of Supervisors.

SFMTA's revenues, including the general fund transfers, are dedicated to SFMTA in the city's charter and are not subject to appropriation by the city. The general fund transfers are determined by formula and not subject to the discretion of the city. SFMTA has autonomy to set rates for transit fares, and parking fees and fines. The city has a long track record of voter approval of funding for transit, most recently the approval in November 2020 of a ⅛-cent sales tax to support CalTrain.

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